

June 11, 2003

**VIA HAND DELIVERY**

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, Second Floor  
Boston, Massachusetts 02110

Re: Inquiry into the Frequency of Default Service Solicitations  
D.T.E. 02-40-B

Dear Secretary Cottrell:

Pursuant to the schedule established by the Department of Telecommunications and Energy ("Department") in the above-referenced proceeding, nine entities, including Western Massachusetts Electric Company ("WMECO"), submitted initial comments on May 28, 2003. One additional comment was submitted on June 4, 2003. In response to the initial comments WMECO submits these brief reply comments.<sup>1</sup>

The parties' initial comments generally support the Department's goal of moving to a more frequent default service schedule for larger commercial and industrial ("C&I") customers. *See, e.g.*, Division of Energy Resources ("DOER") initial comments, p. 1; Select Energy, Inc. ("Select") initial comments, p. 1; Massachusetts Electric Company ("MECO") initial comments, p. 12;; WMECO initial comments, p. 1. The primary dividing issue among the parties is whether to move to a three-month solicitation cycle (supported by a majority of the commenters) or a one-month solicitation cycle.

No party identified any obstacles to a three-month solicitation period. WMECO and other parties advocating the three-month solicitation period indicated that solicitations of that frequency can be achieved using the current procurement process without any major additional personnel costs or data system costs. Fitchburg Gas and Electric Light Company ("FG&E") initial comments, p. 3; MECO initial comments, p. 1; Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company, d/b/a NStar ("NStar") initial comments, p. 11; WMECO initial comments, p. 14. Further, a three-month schedule will not impose the level of additional costs on suppliers that would make bidding onerous. Select initial comments, pp. 3-4. Finally, it appears that as a matter of timing a

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<sup>1</sup> Silence on any point raised by a commenter in no way indicates agreement.

three-month solicitation schedule can be implemented with the next round of default service procurements.

Other entities, conversely, advocated a monthly solicitation schedule. Their comments indicate they did so primarily based on economic theory without much, or any, attention to the obstacles to such a schedule and the risk to which customers would be exposed. *See, e.g.,* Comments of Strategic Energy, LLC, pp. 1-3. WMECO acknowledges the relevance of economics in this discussion but contends that any theoretical end result must be balanced by the known impediments to reaching the result and the risk of unintended negative consequences that cannot be fully known in advance. In this instance, there are a number of serious problems and potential negative consequences with a one-month solicitation. These include:

- o The lag between the selection of a winning bidder(s) and the initiation of default service. ISO-NE ICAP rules require that the default service provider be selected weeks in advance of the initiation of service. *See, e.g.,* WMECO initial comments, pp. 5-7.

- o The difficulty and risk in fitting a solicitation cycle within one month. Constellation Power Source, Inc. and Constellation NewEnergy, Inc. ("Constellation") have suggested a master procurement contract and that instant contract approval be adopted. Constellation initial comments, pp. 3-4. The comments of NStar, and Constellation itself, however, demonstrate how difficult it will be to develop a master contract. NStar initial comments, p. 6; Constellation initial comments, p. 4 (different contracts needed for different parties; necessity of amending the contracts periodically). In addition to the other difficulties with respect to instant approval by the Department (the Department has never adopted an instant approval mechanism for other contracts, to WMECO's knowledge), no one has addressed the Department's rule that WMECO's contracts will not be approved until a report by an independent third-party consultant is submitted and reviewed. This report by the independent third party typically is submitted one week after contracts are signed. WMECO initial comments, p. 6, n. 4.

- o The risk that customers of small distribution companies will face no bids or premium price bids in a monthly solicitation. Unlike one of the commenters, WMECO, as a smaller electric distribution company, does not believe that the Department should gamble on this point.<sup>2</sup> WMECO's customers should not be penalized with higher prices vis-à-vis the prices another electric company's customers experience because WMECO's solicitation was too small to garner supplier interest.<sup>3</sup> FG&E initial comments, pp. 1-3; NStar initial comments, p. 10; WMECO initial comments, pp. 9-10.

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<sup>2</sup> A joint solicitation between FG&E and WMECO is not a suitable response to this problem. Coordinating a joint contract and contracting process to will add considerable confusion and complexity with very little benefit.

<sup>3</sup> WMECO's monthly solicitations will be smaller; very much smaller, in fact, than currently is the case. A monthly C&I default service solicitation would procure about one-

o The dangers to customers in the form of supplier gaming or confusion should default solicitations occur simultaneously. Suppliers, not surprisingly, have not chosen to address this issue, but it must be treated as a real concern. NStar initial comments, pp. 9-10; WMECO initial comments, pp. 10-11.

o The large additional administrative costs that will be borne by customers. It is obvious that considerably more resources will have to be devoted to default service solicitations should the current eight solicitations held by all electric distribution companies become 56 solicitations. In addition, MECO has estimated that its own data system upgrades for monthly procurements will cost approximately \$100,000. MECO initial comments, p. 2. For WMECO, the cost of an extra employee or employees, additional in-house or outside legal time, significant data system upgrades and the independent consultant expense could easily cost many hundreds of thousands of dollars. The great majority of these costs can be avoided with quarterly solicitations.

o The substantial amount of time needed to implement the needed data system upgrades to allow monthly solicitations. To WMECO's knowledge, MECO is the only party that has estimated the time it believes is necessary to upgrade data systems to prepare for monthly solicitations. MECO has indicated that it will take approximately eight months. MECO initial comments, p. 2. However, the details of such data system upgrades have not been specified and it is unclear precisely what data upgrades suppliers will believe is necessary. Implementing new data systems are time consuming and it is not difficult to believe that one or more electric distribution companies would not be prepared to proceed in eight months. However, even if everything was ready in eight months, that remains too long to implement monthly solicitations prior to mid-2004. A three-month solicitation period avoids the need for this extended delay.

In sum, a three-month solicitation can be implemented almost immediately and without a great deal of additional direction from the Department. Conversely, market rules (and the Department's own 30-day notice rule) mean that a one-month solicitation cannot be concluded just before service delivery, as originally envisioned by the Department (D.T.E. 02-40-B, p. 39). In addition, a one-month process also will require a great deal of Department resources to devise ways to compress all the procurement elements, such as contract negotiation, contract-approval periods, and the sufficiency of data provided to suppliers. A one-month process also introduces a significant element of risk to customers, especially for smaller companies. In the end, it is not a close call at this time. The Department should adopt the three-month procurement schedule to provide for more current price signals to customers and reject the alternative proposal.

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twelfth the kilowatthours compared to what is procured now. WMECO initial comments, p. 10. It is entirely possible that a solicitation for one-twelfth the kilowatthours will be of much less interest to suppliers.

Mary L. Cottrell  
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WMECO appreciates the opportunity to submit these reply comments.

Very truly yours,

Stephen Klionsky

cc: Service List (via e-mail)